

# Detailed Rules of China Financial Futures Exchange for the Clearing Business of Clearing Members

(Adopted on June 27, 2007; first amended on February 20, 2010)

## Chapter I General Provisions

**Article 1** These Detailed Rules are formulated in accordance with the *Provisional Measures for the Financial Futures Clearing Business of Futures Companies* and the *Trading Rules of China Financial Futures Exchange* for the purposes of regulating the clearing and settlement of futures transactions by Clearing Members and strengthening the supervision and administration of their clearing businesses.

**Article 2** For the purpose of these Detailed Rules, the “clearing business” of a Clearing Member refers to the clearing and settlement of futures transactions carried out by a Special Clearing Member or a General Clearing Member of China Financial Futures Exchange (the “Exchange”) for the Trading Members that have authorized it to engage in such business on their behalf (“its Trading Members”).

**Article 3** Clearing Members and Trading Members shall comply with these Detailed Rules.

## Chapter II Establishment and Change of Clearing Relationship

**Article 4** A Trading Member shall authorize only one Clearing Member to clear trades on its behalf.

**Article 5** A Clearing Member shall enter into a clearing agreement with its Trading Member and file the agreement with the Exchange for record.

**Article 6** The clearing agreement between a Clearing Member and a Trading Member shall conform to laws, administrative regulations, ministry-level rules as well as the rules of the Exchange, and shall contain the following information:

- (1) methods of placing trading orders and the measures for reviewing and verifying orders;
- (2) margin standard;
- (3) minimum balance of the Trading Member’s clearing reserve;
- (4) risk management measures, requirements and procedures;
- (5) clearing procedures;
- (6) fee standard;
- (7) items, means and deadlines of notices;

- (8) circumstances where losses shall not be attributable to either party and the means by which such circumstances are to be resolved;
- (9) modification and termination of the agreement;
- (10) liabilities for default;
- (11) dispute resolution; and
- (12) other matters agreed upon by the two parties and in compliance with laws, administrative regulations and ministry-level rules.

**Article 7** A Clearing Member shall submit a copy of its clearing agreement with a Trading Member to the Exchange for record within five trading days of:

- (1) modifying any terms and conditions of the clearing agreement;
- (2) terminating the clearing agreement; or
- (3) any other circumstance prescribed by the Exchange.

**Article 8** Any Clearing Member and Trading Member intending to change their clearing relationship shall complete the necessary procedures in accordance with the *Detailed Clearing Rules of China Financial Futures Exchange* and other applicable rules, during which relevant members shall cooperate.

### **Chapter III Trading**

**Article 9** A Trading Member that applies for or cancels a trading code for its clients shall follow applicable rules and timely notify its Clearing Member.

**Article 10** Trading orders placed by a Trading Member shall be reviewed or verified by its Clearing Member before being sent to the Exchange.

Clearing Members may place the necessary restrictions on Trading Members' orders pursuant to the clearing agreement.

**Article 11** Clearing Members shall transmit the trading orders of Trading Members in the order they are received.

**Article 12** After a Trading Member's trading order is sent to the Exchange, the relevant Clearing Member shall promptly relay the order confirmation and execution results from the Exchange to the Trading Member.

**Article 13** Any Trading Member who disagrees with an order confirmation or the execution results shall notify its Clearing Member and the Exchange in a timely manner on the day the confirmation or results are received.

**Article 14** Any client intending to acquire a hedging quota shall apply to its carrying Trading Member who shall complete the application procedures with the Exchange after verifying the application materials.

The Exchange shall examine the client's application materials and, after determining a hedging quota, timely notify the Clearing Member and the Trading Member.

**Article 15** Any Trading Member intending to acquire a hedging quota shall directly apply to the Exchange.

The Exchange shall examine the Trading Member's application materials and, after determining a hedging quota, timely notify the Trading Member and its Clearing Member.

#### **Chapter IV Clearing**

**Article 16** Each Special Clearing Member shall open a Futures Margin Account with a Depository Bank to hold the margin and other relevant funds of Trading Members.

Each General Clearing Member shall open a Futures Margin Account with a Depository Bank to hold the margin and other relevant funds of its clients and its Trading Members.

Each futures-company Trading Member shall open a Futures Margin Account with a Depository Bank to hold the margin and other relevant funds.

Each non-futures-company Trading Member shall open a Futures Settlement Account with a Depository Bank to hold the margin and other relevant funds.

**Article 17** Margin paid by Trading Member to Clearing Member remains the property of the Trading Member. Margin shall be used only for the transactions of the Trading Member and shall not be misappropriated or diverted by any entity or individual.

Margin paid by clients to a Trading Member remains the property of the clients. Margin shall be used only for the transactions of the clients and shall not be misappropriated or diverted by any entity or individual.

**Article 18** The transfer of funds related to futures business between a futures-company Trading Member and a Clearing Member shall be executed solely through their respective Futures Margin Accounts.

The transfer of funds related to futures business between a non-futures-company Trading Member and a Clearing Member shall be executed between the Futures Settlement Account of the non-futures-company Trading Member and the Futures Margin Account of the Clearing Member.

**Article 19** A Clearing Member shall keep the margin deposited by Trading Members in its Futures Margin Accounts segregated from all other funds, and maintain an internal ledger for each Trading Member to record and verify such amounts of the Trading Member as Funds Deposits and Funds Withdrawals, profits and losses, trading margin, and fees in a daily and chronological order.

**Article 20** A Clearing Member clearing trades for a Trading Member shall collect trading margin based on the Exchange's margin standard and the contract value of the Trading Member's positions, at a standard no lower than that imposed by the Exchange on the Clearing Member.

**Article 21** A Clearing Member and its Trading Member shall set out in the clearing agreement the minimum clearing reserve to be maintained by the Trading Member, which shall not be less than RMB 500,000 and shall be paid by the Trading Member with its own funds.

**Article 22** Any Clearing Member that clears trades for Trading Members shall implement daily mark-to-market.

After market close each trading day, the Clearing Member shall calculate, according to the daily settlement price published and the methods prescribed by the Exchange, the profits and losses, trading margin, fees, taxes and other charges for all contracts held by each Trading Member.

Daily profits shall be added to Trading Members' clearing reserves; losses shall be deducted therefrom.

Any increase in the required trading margin of a Trading Member on the current day Over that during clearing on the preceding day shall be deducted from the Trading Member's clearing reserve; any decrease shall be added thereto.

Fees, taxes and other charges shall be deducted from Trading Members' clearing reserves.

**Article 23** Clearing Members shall process Funds Deposits and Funds Withdrawals for Trading Members in accordance with the clearing agreement without unjustifiable delay.

**Article 24** Clearing Members and Trading Members shall prescribe in the clearing agreement the time and manner of clearing data reception, inquiry and confirmation. Clearing Members shall send clearing data to Trading Members in a secure, accurate and timely manner.

The content, format, processing approach and date of the clearing data items that Clearing Members provide to Trading Members shall be fully consistent with those of the Exchange.

**Article 25** Any Trading Member who disagrees with the clearing data received from its Clearing Member shall submit a written objection to the Clearing Member within the time period prescribed in the clearing agreement. Trading Members that agree with the clearing data shall confirm the data in the manner prescribed in the clearing agreement.

A Trading Member shall be deemed to have confirmed the clearing data if it neither confirms nor objects to the data within the time period prescribed by the clearing agreement.

In the case that a written objection is submitted, the Clearing Member shall verify the clearing data within the time period prescribed in the clearing agreement.

## **Chapter V Risk Management**

**Article 26** A Clearing Member shall be responsible for managing the risks of its clients and Trading Members; a Trading Member shall be responsible for managing the risks of its clients.

**Article 27** Clearing Members shall establish a margin management framework in accordance with the regulations of the China Securities Regulatory Commission (“CSRC”) and the rules of the Exchange for managing the margin of their clients and Trading Members.

**Article 28** A Clearing Member may adjust the margin standard in view of the credit standing of its Trading Members and market conditions.

**Article 29** Where, on any particular day, a Clearing Member adjusts the trading margin standard for its Trading Members, then at the time of settlement on that day, the relevant contracts of the Trading Members shall be cleared according to such adjusted standard. Any margin shortfall shall be eliminated by the Trading Members prior to market open on the next trading day.

**Article 30** If prior to market open, a Trading Member’s clearing reserve is below the prescribed or agreed minimum balance requirement, its Clearing Member shall suspend the Trading Member from opening new positions.

**Article 31** No Clearing Member shall collect Guarantee Fund from any Trading Member.

**Article 32** Where a General Clearing Member reaches or exceeds the position limit prescribed by the Exchange, both its clients and its Trading Members shall be prohibited from opening positions in the direction of the position limit. Where a Special Clearing Member reaches or exceeds the position limit prescribed by the Exchange, its Trading Members shall be prohibited from opening positions in the direction of the position limit.

**Article 33** Clearing Members shall establish and implement a forced liquidation system for Trading Members.

**Article 34** Any Trading Member whose clearing reserve is below the prescribed minimum balance requirement shall deposit additional margin or voluntarily close out its positions within the time period prescribed in the clearing agreement, or its Clearing Member shall be entitled to force-liquidate its positions.

**Article 35** Where a Trading Member with a negative clearing reserve fails to eliminate the shortfall within the time period prescribed in the clearing agreement, its Clearing Member shall force-liquidate the positions of the Trading Member or of its clients pursuant to the clearing agreement.

In addition to the preceding provision, the Clearing Member and the Trading Member may set out in the clearing agreement other circumstances that require forced liquidation.

**Article 36** Clearing Members and Trading Members shall set out in the clearing agreement the principles for forced liquidation. Forced liquidation may be executed with reference to the principles set by the Exchange or some other principles.

**Article 37** Where a Clearing Member force-liquidates the positions of a Trading Member, all costs and losses incurred, including any additional losses arising from failed liquidation due to market factors, shall be borne by the Trading Member.

Upon bearing such losses, the Trading Member shall acquire the corresponding right of recourse against the responsible clients.

**Article 38** Any Trading Member that defaults during futures trading shall be liable for the default.

The relevant Clearing Member shall first cover the liabilities with the margin of the Trading Member, and if a shortfall exists, with its own risk reserve and funds on the Trading Member's behalf; and in doing so, the Clearing Member shall acquire the corresponding right of recourse against the Trading Member.

**Article 39** A Clearing Member may issue risk alerts to Trading Members when it deems it necessary.

## **Chapter VI Supervision**

**Article 40** Clearing Members, Trading Members and their employees shall comply with applicable laws, administrative regulations, ministry-level rules as well as the Trading Rules and detailed implementation rules of the Exchange, and receive the supervision and administration of the CSRC and the Exchange.

**Article 41** Clearing Members shall conduct futures clearing business and control clearing risks with prudence and diligence; establish a clearing-risk isolation mechanism, treat their clients, Trading Members and Trading Members' clients equitably, avoid conflicts of interest, and safeguard the confidential information of Trading Members; and shall not abuse the clearing relationship or the information acquired therefrom to undermine the legitimate rights and interests of Trading Members and their clients.

**Article 42** Trading Members shall control the trading risks of their clients with prudence and diligence and shall not abuse the clearing relationship to undermine the legitimate rights and interests of their Clearing Members and clients.

**Article 43** A Clearing Member shall manage its own funds and the margin of its Trading Members in separate accounts. Such margin shall be deposited in a dedicated account and shall not be diverted.

**Article 44** No Clearing Member shall use its Trading Members' margin for its own proprietary business or repayment of its own debts, or allow the margin to be used by others or as a guarantee for other's business activities.

**Article 45** Clearing Members and Trading Members shall safeguard the reputation of the Exchange and assist the Exchange in handling various emergencies and abnormal situations. In the event of an emergency or abnormal situation, Clearing Members shall provide adequate explanations to Trading Members and clients.

**Article 46** Clearing Members shall supervise Trading Members to comply with applicable futures trading laws, administrative regulations, ministry-level rules as well as the rules of the Exchange, and shall strengthen the management of legal and regulatory compliance of Trading Members' trading practices.

## **Chapter VII Ancillary Provisions**

**Article 47** Any violation of these Detailed Rules shall be handled by the Exchange in accordance with these Detailed Rules and the *Measures of China Financial Futures Exchange on Dealing with Violations and Breaches*.

**Article 48** The Exchange reserves the right to interpret these Detailed Rules.

**Article 49** These Detailed Rules shall come into effect on February 20, 2010.